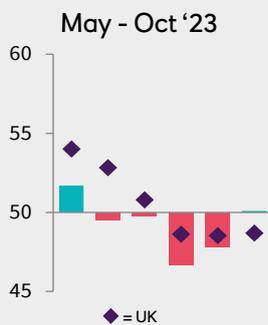


NatWest South West PMI®

Business activity in the South West stabilises in October

South West Business Activity Index



Key findings

Business activity unchanged since September amid softer drop in sales

Employment falls at reduced rate

Business confidence improves; cost pressures ease

The headline NatWest South West PMI® Business Activity Index – a seasonally adjusted index that measures the month-on-month change in the combined output of the region’s manufacturing and service sectors – posted broadly in line with the neutral 50.0 level at 50.1 in October. This was up from 47.8 in September and signalled broadly stable levels of business activity across the region following a four-month period of decline. In contrast, output continued to decline modestly across the UK as a whole at the start of the final quarter of 2023.

Paul Edwards, Chair of the NatWest South West Regional Board, commented:

"The latest PMI survey brought some encouraging signs that business conditions steadied across the South West at the start of the fourth quarter. Firms registered stable activity following four months of decline, and new business fell at the softest rate in five months. Combined with indications that overall cost pressures are easing, this helped to boost business confidence around the 12-month outlook for output. Nevertheless, both input costs and selling prices continued to increase at elevated rates as companies reported further hikes in staff, raw material and energy costs. There are still signs of spare capacity in the sector too, with backlogs of work declining again, which contributed to a modest drop in employment.

"Overall, the more stable picture is a positive development, but firmer demand conditions and a sustained improvement in sales will be needed to put the sector on a solid growth footing."

South West Business Activity Index
sa, >50 = growth since previous month



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About the South West PMI® report

The NatWest South West PMI® is compiled by S&P Global from responses to questionnaires sent to South West companies that participate in S&P Global's UK manufacturing and services PMI surveys.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Business Activity Index. This is a diffusion index

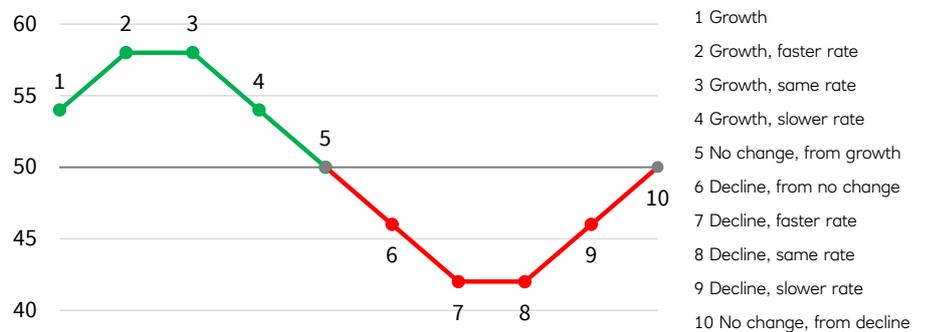
calculated from a single question that asks for changes in the volume of business activity (at service providers) or output (at manufacturers) compared with one month previously. The South West Business Activity Index is comparable to the UK Composite Output Index. It is sometimes referred to as the 'South West PMI', but is not comparable with the headline UK Manufacturing PMI figure.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@spglobal.com.

Index interpretation

50.0 = no change since previous month



Demand and outlook

Softest reduction in new orders for five months

The overall amount of new work placed with South West private sector firms fell only slightly at the start of the final quarter of 2023. Notably, the rate of reduction was the weakest recorded over the current five-month sequence of contraction. While some companies noted that efforts to win new business had borne fruit, others indicated that a general slowdown in market conditions had weighed on overall client demand.

Across the UK as a whole, new orders fell for the fourth straight month, albeit modestly.

Business confidence improves

The Future Activity Index continued to signal optimism among South West private sector firms when assessing the 12-month outlook for output in October. Notably, the level of positive sentiment picked up from September's nine-month low and was slightly above the series average. Upbeat forecasts were generally underpinned by hopes that customer demand will revive and boost sales. Planned company expansions were also mentioned by some firms.

While business confidence softened slightly at the national level, it was in line with that recorded in the South West.

Exports

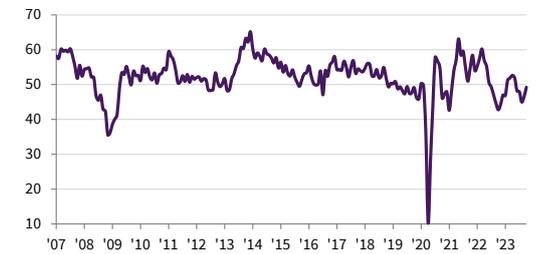
October sees fresh deterioration in export conditions

The South West Export Climate Index is calculated by weighting together national PMI output data according to their importance to the manufacturing exports of the South West. This produces an indicator for the economic health of the region's export markets.

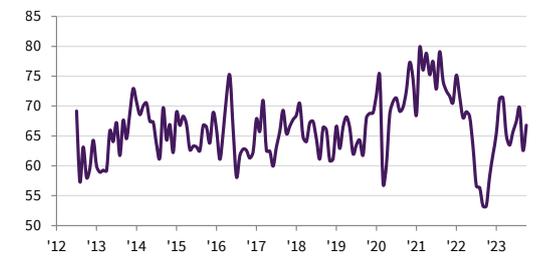
At 49.4 in October, down from 50.1 in September, the index signalled a renewed deterioration in export conditions at the start of the fourth quarter. Though only marginal, it marked the first decline since December 2022.

Four of the five top export markets for the region registered lower business activity during October, with the steepest downturn seen in the Netherlands. The top export market for the region - the US - meanwhile recorded only a slight expansion of output.

New Business Index
sa, >50 = growth since previous month
49.2
Oct '23



Future Activity Index
>50 = growth expected over next 12 months
66.8
Oct '23



Export Climate Index
sa, >50 = growth since previous month
49.4
Oct '23



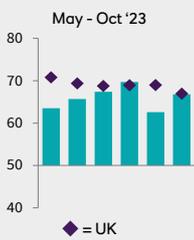
Top export markets, South West

Rank	Market	Weight	Output Index, Oct '23
1	USA	21%	50.7
2	Germany	12%	45.9
3	France	10%	44.6
4	Netherlands	6%	42.3
5	Ireland	5%	49.7

New Business Index
May - Oct '23



Future Activity Index
May - Oct '23



Export Climate Index
May - Oct '23

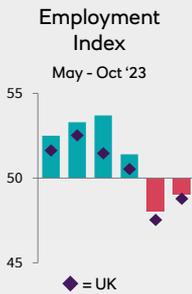


Business capacity

Employment cut for second month running

Private sector firms based in the South West lowered their staffing levels for the second successive month in October. Anecdotal evidence linked the latest decline in payrolls to softer demand conditions and the non-replacement of voluntary leavers. The rate of job shedding eased to a modest pace, however, and was similar to that seen across the UK as a whole.

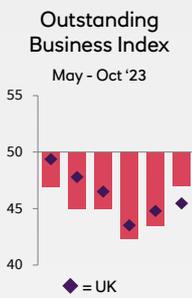
Employment Index
sa, >50 = growth since previous month
49.0
Oct '23



Backlogs of work decline at softest rate in six months

Outstanding business at South West private sector businesses fell again in October, thereby stretching the current sequence of depletion to eight months. That said, the pace of reduction was the softest since April. Moreover, of all 12 UK regions, only London recorded a softer decrease in backlogs than the South West in the latest survey period.

Outstanding Business Index
sa, >50 = growth since previous month
47.0
Oct '23



Where lower amounts of unfinished work were reported, firms often attributed this to reduced inflows of incoming new work.



Prices

Input cost inflation moderates to 33-month low

Latest survey data pointed to a further easing of cost pressures across the South West private sector during October. Though sharp, the rate of input price inflation was the softest recorded since January 2021. A wide range of factors were mentioned as having increased in cost, including wages, raw materials, fuel and energy. A slower, but still marked rise in operating expenses was also seen across the UK as a whole.

Input Prices Index

sa, >50 = inflation since previous month

61.1

Oct '23



Input Prices Index

May - Oct '23



◆ = UK

Selling prices continue to rise at historically elevated pace

The seasonally adjusted Prices Charged Index posted above the neutral 50.0 level in October to signal a further rise in selling prices across the South West. The rate of inflation quickened slightly on the month and remained historically sharp. That said, the increase was the second-slowest seen over the past two-and-a-half years.

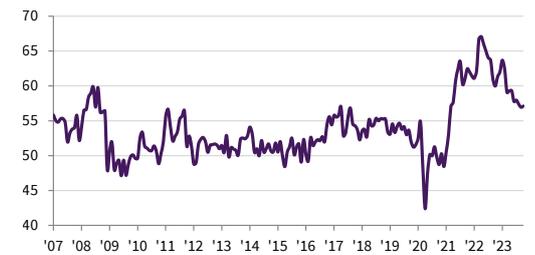
While a number of monitored firms mentioned raising their prices due to higher operating costs, others mentioned that overall pricing power was limited due to competitive market pressures.

Prices Charged Index

sa, >50 = inflation since previous month

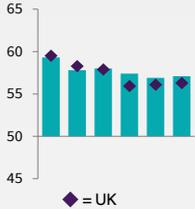
57.1

Oct '23



Prices Charged Index

May - Oct '23



◆ = UK



UK Sector PMI

Sector specialisation: South West

Location quotients (LQs) are useful measures of regional economic specialisation and can identify industry clusters at a local level. They are ratios derived by comparing the share of sector output (or gross value added) in regions with the national share of output in the same sector.

Focusing on the manufacturing and service sectors in isolation, a location quotient is calculated by taking a sector's proportion of regional output and comparing it with the UK-wide share of output in the sector. An LQ of 1.0 in a sector means that the region and the UK as a whole are equally specialised in that sector. An LQ greater than 1.0 indicates that the sector has a greater economic footprint in the region than it does for the UK as a whole.

The tables below rank the location quotients for the South West, broken down by manufacturing and services. The UK Output Index for each sub-sector is also displayed.

South West specialisation: Manufacturing

Rank	Sector	LQ	UK Output Index, Oct '23*
1	Transport	1.50	55
2	Electrical & Optical	1.45	55
3	Other Manufacturing	1.02	50
4	Mechanical Engineering	0.99	50
5	Basic Metals	0.90	50
6	Timber & Paper	0.86	45
7	Food & Drink	0.83	55
8	Textiles & Clothing	0.78	50
9	Chemicals & Plastics	0.67	50

South West specialisation: Services

Rank	Sector	LQ	UK Business Activity Index, Oct '23*
1	Hotels, Restaurants & Catering	1.42	50
2	Business-to-business Services	1.09	50
3	Personal & Community Services	0.98	50
4	Transport & Communication	0.88	45
5	Financial Intermediation	0.86	50
6	Computing & IT Services	0.69	55

UK sector focus

Mechanical Engineering

The trend in production across the UK's Mechanical Engineering sector was one of broad stagnation in the three months to October. This was closely aligned with the sector's performance throughout the year so far, which has seen only marginal growth on average.

Output has in fact been largely supported by the clearing of backlogs of work as the supply of inputs has improved, with inflows of new work having been in decline for more than a year. Nevertheless, firms were optimistic about the 12-month outlook and maintained a trend of job creation that stretches back to the start of 2021.

Turning to prices, latest data showed only modest rises in both input costs and factory gate charges across the sector in the three months to October. Cost inflation was in fact at its joint-lowest since mid-2016, having surged throughout 2021 and 2022.

Output Index

sa, >50 = growth since previous month (3mma)*



*3-month moving average



UK Regional PMI overview

Business Activity

London remained the UK's top-performing region for activity growth in October. It was one of just three areas (out of 12 monitored) where output rose during the month, alongside the West Midlands and South West. Firms in the North East recorded the most marked decline in business activity, followed by those in Wales.

Employment

Seven out of the 12 monitored regions and nations posted lower employment in October. However, this was down from ten in September, and where workforce numbers fell, rates of job shedding often eased. Scotland topped the rankings with a modest rise in staffing levels, with the West Midlands, Northern Ireland*, North West and East of England also seeing increases.

Future Activity

Confidence towards future activity weakened across the vast majority of areas in October, with only the South West and Wales going against the trend. Nevertheless, expectations were optimistic across the board, and nowhere more so than in the West Midlands, which topped the rankings for a fourth straight month ahead of the South East.

* Coverage in Northern Ireland also includes retail and construction, alongside manufacturing and services.

Business Activity Index

sa, >50 = growth since previous month, Oct '23



Employment Index

sa, >50 = growth since previous month, Oct '23



Future Activity Index

>50 = growth expected over next 12 months, Oct '23



Index summary

South West

sa, 50 = no change over previous month. *50 = no change over next 12 months.

	Business Activity	New Business	Export Climate	Future Activity*	Employment	Outstanding Business	Input Prices	Prices Charged
May '23	51.7	51.9	53.4	63.5	52.5	46.9	67.0	59.3
Jun '23	49.5	48.2	52.0	65.7	53.3	45.0	65.3	57.8
Jul '23	49.8	48.0	51.3	67.4	53.7	45.0	66.8	58.0
Aug '23	46.7	45.0	50.2	69.7	51.4	42.3	67.6	57.4
Sep '23	47.8	46.4	50.1	62.6	48.0	43.5	65.1	56.9
Oct '23	50.1	49.2	49.4	66.8	49.0	47.0	61.1	57.1

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